



General Services Administration
Office of General Counsel
Washington, DC 20405

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

January 31, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL

Subject: Price Cap Performance Review for Local Exchange
Carriers, CC Docket No. 94-1

Dear Mr. Caton:

Enclosed please find the original and nine copies of the General Services Administration's Comments on the USTA Ex Parte Submission for filing in the above-referenced proceeding. Copies of this filing have been served on all interested parties.

Sincerely,

Tenley A. Carp
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Personal Property Division

Enclosures

cc: International Transcription Service
Tariff Division

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of

Price Cap Performance Review
for Local Exchange Carriers

CC Docket No. 94-1

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COMMENTS OF THE GENERAL SERVICES ADMINISTRATION
ON THE USTA EX PARTE SUBMISSION

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BEFORE THE
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REPLY COMMENTS OF THE GENERAL SERVICES ADMINISTRATION
ON THE USTA EX PARTE SUBMISSION

The General Services Administration ("GSA"), on behalf of the Federal Executive Agencies, hereby submits its Comments in response to the Commission's Public Notice ("Notice"), DA 95-102, released January 24, 1995. This Notice requests comments on an Ex Parte submission made by the United States Telephone Association ("USTA") to the Commission on January 18, 1995 ("USTA Proposal").

I. INTRODUCTION

In Comments filed on May 9, 1994, and Reply Comments filed on June 29, 1994, GSA urged the Commission to increase the local exchange carrier ("LEC") productivity offset and retain the sharing of excess LEC earnings with ratepayers. Specifically, GSA

recommended that the Commission increase the LEC productivity offset to 5.0 percent.¹

In its January 18, 1995, Ex Parte submission, USTA proposed the adoption of a moving average productivity offset based upon the difference between its calculation of LEC Total Factor Productivity ("TFP") and the TFP of the U.S. economy as measured by the Bureau of Labor Statistics.² "Specifically, USTA proposes that the 5-year LEC TFP differential from the U.S. economy from 1988 through 1992 (2.5%) be used in the annual 1995 Price Cap Tariff Filings."³ USTA also suggests that automatic updating of the productivity factor would obviate the need for the sharing and low end adjustment mechanisms.

GSA strongly opposes USTA's last minute attempt to eliminate the sharing of excess earnings. As GSA will demonstrate in these Comments, USTA's productivity proposal would result in an offset that is far below the appropriate level. The elimination of sharing would prevent ratepayers from sharing in the ensuing excess earnings.

II. The Commission Should Adopt A Moving Productivity Offset Based Upon the AT&T Model.

GSA would support an annual update of the productivity offset as long as it were properly calculated for use in the price cap

¹Reply Comments of GSA, p. 14.

²USTA Proposal, Attachment 1, p. 1.

³Id.

formula. The USTA approach of focusing only on TFP differentials fails to meet this requirement.

As GSA explained in its Reply Comments, the productivity offset must compensate for both the productivity of LECs (as measured by the TFP factor) and the productivity of LEC suppliers (as measured by the change in LEC input prices).⁴ If the Commission were to base its productivity offset only on the growth of LEC productivity, the LECs would retain the full benefits of the increase in productivity of their suppliers.⁵ Since the LECs are not entitled in any way to such a windfall, the Commission must reject USTA's proposal to use the LEC TFP differential as the productivity offset.

Fortunately, however, the Commission has at its disposal a model which does account for both LEC and LEC supplier productivity. In its Comments, AT&T described a model which directly derives the level of productivity ("X"-factor) that the LECs have actually achieved under price regulation from January 1991 through December 1993 using the LEC's publicly filed data.⁶ This model reveals an actually achieved "X-factor" of 5.97 percent for the composite of all seven Regional Bell Operating Companies ("RBOCs").⁷ A portion of this composite is the result of RBOC TFP

⁴Reply Comments of GSA, p. 13.

⁵The USTA TFP study indicates that LEC input prices increased by less than 1 percent a year from 1984 to 1992, far below the rate of increase in the GNP-PI (Response of USTA to Ad Hoc's Motion to Compel, Table 1).

⁶Comments of AT&T, Appendix B.

⁷Id., Table B.1.

growth higher than that reflected in the GNP-PI, and a portion is the result of RBOC input prices lower than that reflected in the GNP-PI.

GSA recommends that the Commission update AT&T's model for 1994 results for use in 1995 Price Cap Tariff Filings. Starting in 1996, the Commission can use the model each year to calculate a five year rolling average as proposed by USTA.

III. The Commission Should Retain the Sharing and Low End Adjustment Mechanisms.

In connection with their productivity offset proposal, USTA once again seeks to have the Commission eliminate the sharing of excess earnings with ratepayers.⁸ In its Comments, USTA stated:

In sum, by eliminating sharing, the Commission would increase incentives for efficiency, innovation and network investment.⁹

GSA addressed this contention in its Reply Comments:

GSA finds no merit whatsoever in these arguments. As discussed above, the RHCs earned over a billion dollars more than their cost of capital in 1993. To argue that the sharing feature of the price cap plan has limited the incentive for LECs to invest and become more productive is absurd in this context.¹⁰

In any case, the sharing and low end adjustment mechanisms remain essential no matter what productivity offset is adopted. The earnings levels of an individual LEC can vary greatly from year

⁸USTA Proposal, pp. 1-2.

⁹Comments of USTA, p. 50.

¹⁰Reply Comments of GSA, p. 10 (emphasis in original).

to year for many reasons beyond the LEC's control. Economic changes, for example, can impact different regions of the country in disparate ways with an attendant effect on individual LEC earnings. The sharing and low end adjustment mechanisms provide an important safety net for both ratepayers and stockholders.

Indeed, the conversion of the LECs to digital switching and fiber optic transport has set the stage for what may be an unprecedented growth in LEC productivity. The LECs have the opportunity to generate huge increases in their output in coming years with but minor increases in inputs. The provision of Video Dialtone services alone promises to generate billions of dollars of revenue with relatively minor incremental investments.¹¹

This potential for increases in productivity and earnings may be the reason that the LECs seek to eliminate sharing. The LECs would prefer to retain 100 percent of such windfalls. The Commission must not allow this to happen. Ratepayers are entitled to a fair share of the benefits of unexpectedly high productivity by individual LECs in any given year. The Commission must retain the sharing and low end adjustment mechanisms as a safety net for both ratepayers and stockholders.

¹¹At least as reflected in LEC 214 Applications for Video Dialtone.


VII. CONCLUSION

As the agency vested with the responsibility for acquiring telecommunications services on a competitive basis for use of the Federal Executive Agencies, GSA urges the Commission to adopt a moving productivity offset based upon the AT&T model and retain the sharing and low end adjustment mechanisms.


Respectfully submitted,

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January 31, 1995

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I, Tenley A. Carp, do hereby certify that copies of the foregoing "Comments of the General Services Administration on the USTA Ex Parte Submission" were served this 31st day of January, 1995, by hand delivery or postage paid to the following parties:

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